Employer Communication Relating to 2022 FUTA Credit Reductions/Interest Payments

As the FUTA credit reduction will increase federal taxes for employers who paid employee wages in 2022, Connecticut has reduced the state tax rate in 2023 to lessen the impact of the federal increase.

The Connecticut Unemployment Insurance (UI) Trust Fund (Fund) had a balance of approximately $700 million prior to the COVID-19 pandemic. According to the formula outlined within the Connecticut General Statutes, the Fund needed $1.4 billion to be considered solvent. Due to the impact of the COVID-19 pandemic and the depth of the economic recession, the Fund was depleted in August 2020. As a result, the Connecticut Department of Labor (CTDOL) began borrowing funds from the United States Department of Labor (USDOL) to continue paying state UI benefits. As of November 30, 2022, CTDOL has borrowed approximately $1 billion and has a loan balance (amount due to USDOL) of $76 million. Currently, Connecticut is one of six states with outstanding federal loans.

One of the federal statutory mechanisms for repaying outstanding federal loans is through increased Federal Unemployment Tax Act (FUTA) taxes. Each state that has federal loans outstanding for at least two consecutive years subjects their employers to increased FUTA taxes each year until all loans are paid in full. The payments from FUTA tax increases are applied directly to that state's outstanding federal loan balance. As the state has an outstanding loan balance, Connecticut employers will have a FUTA tax increase of 0.3%, applied to payroll paid from January 1, 2022, through December 31, 2022— up to $21 per full-time employee. The calendar year 2022 FUTA tax return payments will be due and payable in January 2023.

To mitigate the impact of the FUTA tax increase to employers, the Connecticut Legislature passed Public Act 22-118, which contains a provision reducing the state unemployment tax rates by 0.2% for calendar year 2023. This state unemployment tax rate reduction lessens the impact of the FUTA tax increase for those that are paying State Unemployment Tax Act (SUTA) in 2023.

Generally, federal loans carry interest that is paid to USDOL on September 30 of each year in which a loan is outstanding. In response to the global pandemic, United States Congress passed legislation that waived the interest on UI trust fund loans through September 6, 2021. For Connecticut, interest of approximately $1 million from September 7, 2021 through September 30, 2021 was due September 30, 2021.

In Connecticut, the statutory mechanism to collect interest is through an annual Special Assessment that is levied on active Connecticut contributory employers in August. This is a supplemental bill that covers the interest accrued on an outstanding loan balance. However, recognizing the financial burden foisted upon businesses by the pandemic, Governor Lamont authorized the state to pay the interest due on September 30, 2021, thereby eliminating the need for Connecticut employers to pay the Special Assessment last year. CTDOL projects that Connecticut will continue to have an outstanding loan balance through 2025, therefore, interest will continue to accrue through September 2026. Governor Lamont has obligated $30M in federal ARPA funds to pay the interest due from September 2022 through September 2026. This action and commitment will relieve employers of paying interest costs of up to $30M in those years as well. Therefore, CT employers will not be burdened by any special assessments for UI pandemic-related loan interest payments.

Please note that while the IRS will publish a list of FUTA credit reduction states, CTDOL is providing employers and their payroll agents this information in advance of the IRS notice to allow employers to budget for the federal tax increases and minimize retroactive adjustments.

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